



**BOARD OF EQUALIZATION**

**BUSINESS TAXES COMMITTEE MEETING MINUTES**

HONORABLE DEAN F. ANDAL, COMMITTEE CHAIR

450 N STREET, SACRAMENTO, ROOM 121

APRIL 21, 1999 — 9:00 A.M.

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**Agenda Item: Proposed Regulatory Changes to Address Needs of the Printing Industry (Regulations 1541 and 1502)**

**Issue**

Should Sales and Use Tax Regulation 1541, *Printing and Related Arts*, and Regulation 1502, *Computers, Programs, and Data Processing*, be amended as proposed by industry?

**Committee Discussion**

The committee was addressed by Mr. Gerry Bonetto, Director, Government Affairs, Printing Industries of California, and Mr. Glenn Bystrom, Ernst & Young. Since there were a number of issues included in the proposed amendments to Regulation 1541 (and related amendments to 1502), staff prepared a summary of the action items to be considered, attached herewith as Exhibit E, Supplemental. Discussion on each item was as follows.

***Regulation 1541***

Action 1, Consent

These were the items on which industry and staff agreed.

Action 2, Desktop Publishing/Digitized Pre-press Instructions

Discussion centered on whether the creation of digitized pre-press instructions constituted a custom computer program.

Action 3, Special Printing Aids – Taxable Sales

Staff agreed with industry that simplification is needed for the documentation of title passage of special printing aids.

Actions 4 and 5, Special Printing Aids – Exempt Sales and Split Sales

The determination of selling price was acknowledged as problematic if the industry's proposal is accepted.

Action 6. Color Separators

Industry explained that the majority of work performed by color separators constitutes repair labor. Mr. Bystrom proposed that a charge of less than \$100 by a color separator be deemed repair labor. Staff agreed with this proposal.

Action 7. Composed Type in General

Staff indicated a willingness to agree with industry's proposal that composed type includes charts, tables and graphs, but considered the additional phrase "and similar methods of providing information" too broad.

Action 8. Clip Art

Industry contended that clip art is comparable to symbols, historically treated as composed type, in that no artistic skill is employed in accessing and incorporating these elements into the printing job.

Action 9. Computer Generated Art

Industry's position was that computer generated art is similar to typography, in that it is produced by a computer program. Staff argued that the computer is the artist's tool in this case.

Action 10. De minimis Art

There was some concern expressed by committee members that industry's proposal would create more confusion.

**Regulation 1502**

There was no discussion specifically on Regulation 1502.

**Committee Action/Recommendation**

The committee approved most elements of industry's proposal, and directed staff to request authority to publish the amendments to Regulation 1541. The committee's decisions on each of the action items were as follows:

**Regulation 1541**

- Action 1:       Approved the adoption of all items with which staff and industry were in agreement.
- Action 2:       Approved industry's proposal; approved staff's request to work with industry on refining the language.
- Action 3:       Approved industry's proposal.
- Actions 4, 5:   Approved industry's proposal; gave permission to staff to seek agreement with industry on a change to the industry language.

- Action 6:       Approved industry's proposal; directed staff to work with industry on language for the \$100 threshold, to be submitted by April 22, 1999.
- Action 7:       Approved industry's proposal.
- Action 8:       Approved industry's proposal.
- Action 9:       Approved staff's recommendation.
- Action 10:      Approved staff's recommendation; directed staff to work with industry on developing a mutually agreeable method for determining taxable/nontaxable components of a job containing both composed type and artwork.

Attached are proposed revisions for Regulation 1541 incorporating the \$100 threshold approved for Action 6 and other actions as directed by the committee.

### **Regulation 1502**

The committee directed staff to request authority to publish amendments to Regulation 1502 in accordance with amendments published for Regulation 1541.

## **Agenda Item: Proposed Regulatory Changes Regarding Cellulose Casings (Regulation 1587)**

### **Issue**

Should Regulation 1587, *Animal Life, Feed, Drugs and Medicines*, be amended to allow a tax exemption for the sale of cellulose casings used in the manufacture and production of meat products and ultimately incorporated into or resold as feed for food animals or non-food animals which are to be sold in the regular course of business?

### **Committee Discussion**

The committee was addressed by Mr. Bill Mattos, President, California Poultry Industry Federation, and Mr. Glenn Bystrom, Ernst & Young. Mr. Bystrom explained that current technology now allows re-use of the cellulose casing used in the manufacture of sausage, and that the sausage manufacturing process simultaneously produces the end products of sausage and animal feed. Therefore, the purchase of cellulose casings should not be subject to use tax, since the casings are not a manufacturing aid.

### **Committee Action/Recommendation**

The committee approved industry's proposal, and directed staff to request authority to publish the amendment to Regulation 1587.

Approved: /s/ Dean F. Andral  
HONORABLE DEAN F. ANDAL,  
Committee Chair

/s/ E.L. Sorensen, Jr.  
E. L. Sorensen, Jr., Executive Director

BOARD APPROVED  
at the 4/22/99 Board Meeting

/s/ Janice Masterton  
Janice Masterton, Chief  
Board Proceedings Division